

**Audit Committee
Meeting Minutes
July 14, 2014**

The Town of Bethany Beach Audit Committee held a meeting on Monday, July 14, 2014 at 10:00 a.m. in the Bethany Beach Town Meeting Room, 214 Garfield Parkway, Bethany Beach, DE.

Members present: Patrick Sheplee, Chairman, who presided; and Thomas Defibaugh.

Excused member: Monte Wisbrock

Also present: Finance Director, Janet Connery; Internal Auditor, Philip Rossi; Herb Geary and Betsy Eicher, TGM Group, LLC; Mayor Jack Gordon; Council persons, Rosemary Hardiman, Joseph Healy; Jerry Morris; Administrative Assistant, Lindsey Good; and interested members of the public.

Mr. Sheplee called the meeting to order at 10:04 a.m.

Approval of the Agenda

Mr. Defibaugh made a motion to approve the agenda. Mr. Sheplee seconded the motion and it was unanimously approved.

Approval of Minutes from the May 02, 2014 Meeting

After one correction, Mr. Defibaugh made a motion to approve the minutes dated May 02, 2014 as amended. The motion was seconded by Mr. Sheplee and unanimously approved.

Report by Accounting Firm TGM Group LLC As To This Year's Audit and Financial Statements

Mr. Geary gave a report on this year's audit and financial statements compilation. Their firm gave the Town an unmodified opinion, which is the highest opinion they can give. The terminology recently changed, but an unmodified opinion is the same as what was formerly known as an unqualified opinion.

He explained the Town financially had another fantastic year. It was within budget for revenue and expenses with plenty of reserves so a very positive result. He complimented the Town from an Internal Control and Compliance standpoint, noting that we have a very active Council, Budget and Finance Committee and Audit Committee. He added it is very reassuring to see this much interest and involvement in a small town.

This year's audit included a Single Audit Report, which is a separate compliance audit and report. This report was required as the Town used more than \$500,000 in federally sourced funds. Mr. Geary quoted two sentences from Page 2 of the report that say they "did not identify any deficiencies in internal control" and their "tests disclosed no instances of noncompliance". Of the three types of federally sourced funds, the water tower project was the only major

program and is a loan with funds that originally came from the Environmental Protection Agency.

Mr. Geary pointed out the summary of audit results on Page 10, which includes numbered points noting the “unmodified opinion”, “no significant deficiencies”, “no instances of noncompliance” and “no findings”. He explained that Point #9 states that the Town did not qualify as a low-risk auditee, however the only reasons the town can’t be classified as low-risk is because we have not had a single audit in recent years. Next year, if a Single Audit is required, the Town would be classified as low-risk.

He said there are just a few items remaining to finalize the audit. They need to review the most recent Town Council meeting minutes and are waiting for the attorney letter from one of the Town’s firms.

Ms. Connery reviewed a few highlights of the financial statements. In the summary Statement of Net Position two areas showed significant increases. Capital Assets increased 14.2% (\$2.2 million), \$2.1 million of this is in water fund from the tower and related projects. Long-Term Liabilities increased 172.4% (\$1.2m) from paying off some general fund debt while increasing the debt on the water tower. The water tower project and related loan had a large effect throughout the statements. As of the end of FY 2014 we had drawn \$1.8 million in loan funds with another \$500,000 expected in the current year, using \$2.3 million of the \$2.6 million approved loan.

Ms. Connery continued to point out that the town’s unrestricted net position (previously known as unrestricted net assets) increased \$375,000 while capital assets increased \$837,000. This shows the Town continues to invest in capital projects but not at the expense of reserves.

The summary statement of activities shows revenue and expenses in comparison to the prior year. Town-wide revenues increased 1.5%, which is \$129,000. Town-wide expenses increased 0.2%, which is \$17,000. So the Town brought in \$111,000 more than its total costs, which includes the cost of depreciation.

Ms. Connery explained that each year she estimates the cost of the summer season to compare it with summer related revenues received. She calculated that last summer brought in roughly \$2.9 million and cost \$2.8 million. This means that summer fees are covering the cost of summer services so that our year round residents are not unfairly subsidizing summer vacationers.

Ms. Connery referenced the pie chart on Page 14, which shows our largest revenues as a percentage of total revenue. She stated that she reviewed the five prior years and found that the pie pieces have not changed significantly over these years, meaning that the percentage of revenue from each individual source is holding fairly steady. This is good and in part a result of small increases to taxes and fees. For example:

- Property taxes for the prior 5 years ranged from 28% to 31% of total revenue, this year it was 28%.
- Parking for the past five years ranged from 22% to 26%, this year was 24%.

- Transfer taxes ranged the most, from 9.1% to 14.6%, this year we had 13%.

In Enterprise Funds, Ms. Connery said that the Water Fund showed gradually declining operating gains in the prior three years and is now at a slight loss of \$12,000. The current water use rates took effect in May of 2008 and the Town will probably need to adjust the rates in the near future.

The Sanitation Fund has gone from a \$74,000 gain in FY 2011 to a loss of \$80,000 in FY 2014 back to a small gain of \$14,000 this past year. This is from cost increases caused by state regulations on recycling and yard waste as well as large increase in dump fees charged by the Delaware Solid Waste Authority. The Town responded to the cost increase by raising trash fees, which brought sanitation back to just above breakeven.

Ms. Connery said that overall the statements support the conclusion that the Town remains in very good fiscal condition and is achieving stated goals of having sufficient reserves and minimal debt while supplying a high level of service.

Questions/Comments by Audit Committee and Internal Auditor

Mr. Geary stated that the MD&A that Ms. Connery prepares is very comprehensive. He said it includes more information, is more readable and is just better than others he has seen prepared by municipal governments. He added that none of the three new governmental accounting pronouncements released recently will have any effect on the Town.

Mr. Healy said that he was currently considering the Town's reserve levels and wondering what they should be. He noted that the general fund has \$5.9 million in accumulated depreciation and an unrestricted net position of \$5.1 million. He said he questioned if they should more closely mirror each other, but is satisfied for now. He commented that he thinks we've addressed everything and can't imagine how the town can be much better in how it operates.

Mayor Gordon asked if Point #9 on Page 10 of the compliance audit could be changed to give the reason why the Town is not considered low-risk. Mr. Geary said he could either add a second note to Page 9 or add a sentence to Point 9 stating that the only reason the Town didn't qualify as low-risk was that a Single Audit was not needed last year. The Committee preferred expansion of Point #9 so that the explanation is right there rather than on a different page. Mr. Geary will e-mail Ms. Connery the revised verbiage.

Mr. Geary acknowledged to the Committee that he is available to meet with them separately if they would like. He mentioned that they have the option of clearing the room of all but the auditors and Committee if they felt it was necessary to openly discuss any issues, but Mr. Sheplee did not feel this was needed. Mr. Geary complimented Ms. Connery on her work.

Adjourn

Mr. Defibaugh made a motion to adjourn the meeting. The motion was seconded by Mr. Sheplee and unanimously approved. The meeting was adjourned at 10:52 a.m.